

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4464-03
Bill No.: Perfected HCS for HB 1308
Subject: Education, Higher; Education, Elementary and Secondary
Type: Original
Date: April 16, 2014

Bill Summary: This proposal expands the Higher Education Academic Scholarship Program (Bright Flight) to include forgivable loans.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	(\$6,685,581)	(\$12,664,988)	(\$17,995,089)
Total Estimated Net Effect on General Revenue Fund	(\$6,685,581)	(\$12,664,988)	(\$17,995,089)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Higher Education Academic Scholarship Fund*	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds*	\$0	\$0	\$0

***Offsetting Transfers In and Disbursements of \$6,616,317 in FY 15, \$12,581,105 in FY 16, \$17,910,366 in FY 17.**

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1 FTE	1 FTE	1 FTE

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Elementary and Secondary Education** and the **Office of State Treasurer** assume no fiscal impact to their respective agencies.

Officials from the **Joint Committee on Administrative Rules (JCAR)** stated this proposed legislation is not anticipated to cause a fiscal impact to JCAR beyond its current appropriation.

According to officials from the **Office of Secretary of State (SOS)**, many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to Secretary of State's office for Administrative Rules is less than \$2,500. SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what their office can sustain with their core budget. Therefore, SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal with core funding. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Officials from the **Department of Higher Education (DHE)**, provided the following response regarding this proposed legislation:

Because the vast majority of students receiving Bright Flight are pursuing four year degrees, the total cost of the forgivable loan will not be reached until one year after the fiscal note period. Based on the assumptions provided below, it appears the total ongoing cost of the program will be approximately \$22,000,000 per year. It is important to note this does not allow for the repayment of outstanding loans that would reduce the amount of this cost that would be need to be covered by general revenue. DHE is unable to estimate this amount, however, as they are unable to estimate the number of loans or the amount of loan balances that will be repaid each year.

ASSUMPTION (continued)

While initial administrative costs relating to program implementation and operation would be minimal, once the loan component of the program becomes fully operational (that is recipients have graduated and loans begin to be forgiven or go into repayment), there will be substantial administrative costs for program operation. These costs are impossible to accurately project as DHE has no reliable way to project the number of loans. In addition, there will likely be a difference in the costs required to administer the loans depending on whether they are forgiven or require repayment. Since DHE is unable to determine what proportion will be forgiven or require repayment, DHE is unable to project these differential costs as well. Costs will include additional DHE staff and system programming in order to allow DHE to service the loans directly and/or the costs related to contracting the loan servicing operations to a third party organization.

It is assumed additional staff will be required to administer this additional program. Consistent with the Governor's budget recommendation, it is assumed 1 FTE at the Senior Associate level will be needed to support the program.

For FY 2013, DHE paid a total of 1,579 students as initial recipients through the Bright Flight program, constituting payments to the top three percent of test takers. Current projections indicate participation will remain relatively stable. With regard to students in top fourth and fifth percentile, approximately 1,000 students in the class of 2013 achieve an ACT score in this range. It is assumed 60 percent will enroll in a Missouri institution, which is consistent with the proportion of test takers that are eligible within the top three percent. This would mean 600 students in the top fourth and fifth percentiles would be eligible for the forgivable loan.

It is estimated that the new definition of continuous enrollment will reduce the number of renewal students by approximately 10 percent. This is based on the fact that approximately 10 to 15 percent of Bright Flight recipients require at least five years to graduate. It is likely that these five-year graduates are not accumulating credit hours at the rate required by this new provision. While some of these students may increase the number of hours completed as a result of this requirement, it is assumed that some proportion (10%) will not.

The projected loan maximums are based on the average tuition and fees, as reported to the DHE, for each sector referenced in the proposal (public four-year colleges, community colleges, independent colleges). For FY14, the average tuition is \$7,591 for public four-year colleges, \$4,225 for community colleges, and \$9,415 for independent colleges, which are capped at the University of Missouri - Columbia rate. It is assumed these tuition rates will not change during

ASSUMPTION (continued)

the fiscal note period. The proposal indicates the maximum loan is the tuition and fees less the amount of the academic scholarship so it is assumed the scholarship amounts will remain the same, \$2,500 for the top three percent and \$0 for the fourth and fifth percentiles. Consequently, the maximum loan amounts for the students in the top three percent are assumed to be \$5,091 for public four-years, \$1,725 for community colleges, and \$6,915 for independent institutions. For the top fourth and fifth percentiles, the loan maximums are the tuition and fee amounts listed.

It is assumed that half of the eligible students will opt to accept the loan and that the loan will be the maximum permitted for the type of institution attended.

	Four-Year Colleges	Community Colleges	Independent Colleges
Eligible (top 3%)	598	24	169
Max. Loan	\$5091	\$1725	\$6915
Total	\$3,044,418	\$41,400	\$1,168,635
Eligible (4 & 5)	228	9	63
Max Loan	\$7591	\$4225	\$9415
Total	\$1,730,748	\$38,025	\$593,145

Based on these assumptions, the cost for the initial year (FY15) would be \$6,616,371. This amount is reduced by 10 percent each succeeding year, based on the change to continuous enrollment.

Officials from the **University of Central Missouri** estimate no direct fiscal impact from this proposal, but further estimates this proposal would have only a positive effect on UCM in the form of potentially increased enrollment if this proposal makes more scholarship funds and more loan options available to students. No negative fiscal impact would result from the proposal.

Officials from **Missouri State University** assume this proposal would potentially have a positive fiscal impact, the extent of which cannot be quantified at this time.

Officials from **Missouri Southern State University** state a fiscal impact is indeterminate at this time.

Officials from **Linn State Technical College**, **Northwest Missouri State University**, the **University of Missouri System**, and **Missouri Western State University** assume no fiscal impact on their respective institutions.

ASSUMPTION (continued)

Oversight assumes fiscal impact to colleges and universities would be indirect.

Officials from the following colleges and universities: Crowder, East Central Community College, Harris-Stowe, Jefferson College, Kansas City Metro Community College, Lincoln University, Moberly Area Community College, Southeast Missouri State University, State Fair Community College, St. Charles Community College, St. Louis Community College, Three Rivers Community College, and Truman State University did not respond to **Oversight's** request for fiscal impact.

Officials from the following school districts assumed no fiscal impact: **Francis Howell, Johnson County R-7, and Fulton.**

Officials from the following school districts: Blue Springs, Branson, Caruthersville, Charleston R-I, Cole R-I, Columbia, Fair Grove, Harrison R-IX, Independence, Jefferson City, Kansas City, Kirksville, Kirbyville R-V, Lee's Summit, Malden R-I, Malta Bend, Mexico, Monroe City R-I, Nixa, Parkway, Pattonville, Raymore-Peculiar R-III, Raytown, Riverview Gardens, Sedalia, Sikeston, Silex, Special School District of St. Louis County, Spickard R-II, Springfield, St Joseph, St Louis, St. Charles, Sullivan, Warren County R-III, and Waynesville did not respond to **Oversight's** request for fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE			
<u>Transfer Out</u> - Department of Higher Education (DHE) - Loan forgiveness program	(\$6,616,371)	(\$12,581,105)	(\$17,910,366)
<u>Costs</u> - DHE (1 FTE)			
Personal Service	(\$45,833)	(\$55,550)	(\$56,106)
Fringe Benefits	(\$23,377)	(\$28,333)	(\$28,617)
Total Costs - DHE	(\$69,210)	(\$83,833)	(\$84,723)
FTE Change - DHE	1 FTE	1 FTE	1 FTE
ESTIMATE NET EFFECT ON GENERAL REVENUE	<u>(\$6,685,581)</u>	<u>(\$12,664,988)</u>	<u>(\$17,995,089)</u>
Estimated Net FTE Change for General Revenue	1 FTE	1 FTE	1 FTE
HIGHER EDUCATION ACADEMIC SCHOLARSHIP TRUST FUND			
<u>Transfer In</u> - General Revenue - Funding for loan forgiveness program	\$6,616,371	\$12,581,105	\$17,910,366
<u>Disbursements</u> - Student loans	(\$6,616,371)	(\$12,581,105)	(\$17,910,366)
ESTIMATED NET EFFECT ON HIGHER EDUCATION ACADEMIC SCHOLARSHIP TRUST FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

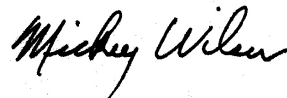
This proposed legislation would change three aspects of the current Bright Flight program:

- 1) It would require that, in order to be eligible, 2017 high school seniors and all future graduating classes would be required to meet additional eligibility requirements. Those additional eligibility requirements would be to achieve a passing score on the Algebra I and English I end-of-course exams or meet ACT/COMPASS test scores established by the CBHE.
- 2) It would establish a new definition of continuous enrollment. Currently a student must simply be paid during one semester of an academic year to be considered continuously enrolled. Under the revised provisions, a student would need to complete a certain number of credit hours (24 in the first year; 30 in each subsequent year) to be considered continuously enrolled.
- 3) It would add a forgivable loan component to the program for any Bright Flight eligible student. The maximum annual loan would be based on the tuition and fees at the institution or sector the student is attending. Each annual loan would be forgiven on a year by year basis based on the recipient being employed in Missouri.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Higher Education
Joint Committee on Administrative Rules
Office of Secretary of State
 Administrative Rules Division
Office of State Treasurer
Department of Elementary and Secondary Education
Colleges and Universities
 University of Missouri System
 University of Central Missouri
 Linn State Technical College
 Missouri State University
 Missouri Southern State University
 Missouri Western State University
 Northwest Missouri State University
School Districts
 Special School District of St. Louis County
 Fulton
 Francis Howell
 Johnson County R-7



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April 16, 2014

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